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Via Electronic Filing

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W., Room TW-B204
Washington, DC 20554

Re: Notice of *Ex Parte* Presentation: Iowa Telecommunications Services, Inc., FCC Tariff No. 1, Transmittal 31 & 39, WC Docket No. 03-135.

Dear Ms. Dortch:

Yesterday, September 4, 2003, Robert Quinn Jr., Richard Clarke and I met with Daniel Gonzalez, Legal Advisor to Commissioner Kevin Martin. AT&T reiterated its position that Iowa Telecom Services' "FLEC" cost study in support of its 26% ATS rate increase, despite it's recent revisions, contains numerous severe flaws and unsupportable assertions and should be rejected. The Iowa Telecom Services study does not follow the standard forward looking economic principles that have been endorsed by the Commission. Instead, it chooses inputs and assumptions that are not forward-looking and efficient, apparently to justify a huge and unneeded price increase. The attached document is a redacted version of what was used as an outline for these discussions.

Consistent with the Commission rules, I am filing one electronic copy of this notice and request that you place it in the record of the proceedings.

Sincerely,

Patrick H. Merrick

Attachment

cc: Daniel Gonzalez

Iowa Telecom neither needs nor justifies an increase to its 0.95 ¢/min ATS rate

- IT has had no problem making an adequate return at its CALLS ATS rate. IT's 2002 interstate ROR was 17.85%, and has been growing. This is already higher than many similar carriers'. Raising IT's ATS rate by 50% to 1.42 ¢/min will simply increase its interstate ROR to over 24%.
- IT has still not filed a credible FLEC study. Its (3/25, 8/19 and 9/3) filed studies overstate costs by:
  - failing to use consistent forward-looking engineering assumptions;
  - costing a network with capacity that vastly exceeds IT's efficient needs;
  - selecting model input values that are inflated and without any evidentiary support;
  - failing to account for all of the telecom services that IT will provide over this network and thus over-assigning its cost to ATS;
  - double-recovering much of its cost by failing to conform with Part 36, 64 and 69 guidelines for interstate access rate construction.
- IT vacillates between using FL and embedded network assumptions. Its modeled switching network has [redacted] hosts and [redacted] remotes, but its transport network is constructed to serve 83 host/tandems and 211 remotes – thus vastly overstating the cost of this "forward-looking" switching network. Indeed, certain costs (e.g., signaling) are just numbers plugged into IT's proposed ATS rate without any modeling or support whatsoever.
- IT uses statistically inadequate and illogical data for switching costs. These "data" do not derive from purchased switches. Rather, they derive from poorly documented and exorbitant price quotes for switches that are quite different from the ones that IT actually costs in its ATS model.
- IT costs out too many trunk ports on its switches. It assumes one DS1 interoffice trunk port for every [redacted] to [redacted] minutes of load. This is well below Bellcore-recommended loading for small rural switches. And much smaller than the 8000 to 10,000 minutes loads that GTE achieved when it operated these study areas several years ago.
- IT double-recovers much of its switching costs by allocating [redacted]% of the switch to ATS when it is already collecting ~30% or more of the switch from Common Line.
- IT overbuilds its transport network. It assumes 30% more plant mileage than current, it builds too many host-remote and host/tandem rings, and builds its host/tandem rings too large (mostly OC-48). Indeed, it builds [redacted] host/tandem rings to serve just [redacted] host/tandem switches! This is not sensible, and IT just doesn't have traffic volumes to justify these capacities, thus it achieves average network fills of well under [redacted]%.
- Even more concerning, IT likely doesn't account for all of the non-switched services that it provides when determining the portion of the cost of this overbuilt transport network attributable to ATS. Indeed, in its 8/19 filing, IT admitted that it that its true figure for its nonswitched services was at least [redacted]% larger that what it previously had reported. Given benchmark data on non-switched circuits counts from other LECs and the lack of documentation that accompanies its newest figure, it too may be understated.
- Correcting for these faults would put IT's FLEC ATS cost below 0.95 ¢/min. Indeed, the IUB examined the same IT arguments as it has presented here (financial stress, network modernization, etc.) when requesting that its local rates be increased by as much as 112%, and determined them to be unconvincing. It granted a 3% increase – and that was just to compensate for the costs of a rate rebalancing.